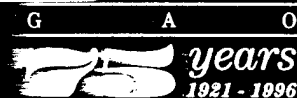


March 1996

DOD BULK FUEL

Services' Fuel
Requirements Could
Be Reduced and Funds
Used for Other
Purposes

19960502 081



DISCLAIMER NOTICE



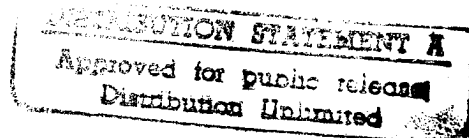
**THIS DOCUMENT IS BEST
QUALITY AVAILABLE. THE
COPY FURNISHED TO DTIC
CONTAINED A SIGNIFICANT
NUMBER OF PAGES WHICH DO
NOT REPRODUCE LEGIBLY.**

National Security and
International Affairs Division

B-270986

March 28, 1996

Congressional Committees



In our September 1995 report¹ on the military services' fiscal year 1996 operation and maintenance budget requests, we identified overstated bulk fuel requirements as an area where the Congress could reduce the services' budget requests. This report is being done under our basic legislative authority. It updates our initial findings on bulk fuel and identifies additional funds in the services' bulk fuel budgets that exceed requirements.

Background

The Defense Fuel Supply Center (DFSC) has the primary responsibility for providing the services with the fuel they need. DFSC purchases the fuel from commercial sources and sells it to the services. Although DFSC is the primary source, the services also buy a small amount of fuel direct from commercial sources.²

The services determine their fuel requirements and budget requests based on flying hours, steaming days, tank training miles, and base operations needs. The services advise DFSC of their requirements so that DFSC can determine the amount of fuel that it will need to satisfy the services' operating requirements, provide for war reserves, and meet the needs of its other defense customers.

Results in Brief

For fiscal year 1996, the Army's, the Navy's, and the Air Force's budget requests for bulk fuel totaled \$4.12 billion. Of this total, the three services planned to buy \$107 million, or 2.6 percent, from commercial sources. Therefore, the amount of funds requested to buy fuel from DFSC was about \$4.01 billion.

Based on historical usage data adjusted for factors expected to occur in fiscal year 1996, DFSC estimates that the services' fuel purchases in fiscal year 1996 will be about \$3.57 billion, or about \$440 million less than the amount the services requested in their budgets. This estimate is lower than our estimate when the services submitted their budget requests in January 1995. At that time, we estimated that the services would purchase

¹1996 DOD Budget: Potential Reductions to Operation and Maintenance Program (GAO/NSIAD-95-200BR, Sept. 26, 1995).

²We are reviewing fuel purchases from commercial sources and will report on this matter separately.

about \$3.68 billion of fuel in fiscal year 1996 sales, or about \$330 million less than the amount requested.

Bulk Fuel Requirements Are Overstated

At the time the services submitted their fiscal year 1996 budget requests to the Congress, the Army, the Navy, and the Air Force estimated their bulk fuel needs from DFSC at 126.7 million barrels, costing about \$4.01 billion. At the same time, DFSC estimated that, based on historical usage data, the services would require 116.5 million barrels of fuel, costing about \$3.68 billion. Based on usage data for fiscal year 1995 adjusted to reflect known changes in fiscal year 1996, DFSC's February 1996 estimate was that the services would buy about 113.5 million barrels of fuel from DFSC at a cost of about \$3.57 billion. This difference represents about 13.2 million barrels and \$440 million less than what the services included in their budget requests. Table 1 shows each of the services' fuel requirements and DFSC's estimate of sales to the services in fiscal year 1996.

Table 1: Bulk Fuel Requirements in the Fiscal Year 1996 Budget Request and DFSC's Estimate of Sales to the Services

Numbers in millions

Service	Budget estimate		DFSC estimated sales		Difference	
	Barrels	Dollars	Barrels	Dollars	Barrels	Dollars
Army	10.5	\$316.9	7.5	\$236.2	3.0	\$80.7
Navy	46.5	1,461.2	39.3	1,236.6	7.2	224.6
Air Force	69.7	2,235.2	66.7	2,100.9	3.0	134.3
Total	126.7	\$4,013.3	113.5	\$3,573.7	13.2	\$439.6

The Department of Defense (DOD) and service officials do not agree that their bulk fuel budget requests are overstated. They pointed out that the DFSC estimates are as of a point in time and that requirements change constantly. They also said that reducing their fuel budget requests would hamper their flexibility to meet other emerging requirements that were not funded in the budget. We agree that the services' fuel needs change frequently as a result of changing requirements. However, the services' own data show a trend that they do not use all of the funds budgeted for fuel for that purpose. For example:

- For fiscal years 1991 through 1994, the Army's average annual fuel usage for training purposes was about 1.75 million barrels—about \$55 million—less than budgeted. DOD officials agree that the Army historically overstates its training budget, and said that doing so allows the Army to reprogram the funds to meet other readiness requirements.

- The services return fuel to DFSC for credit.³ However, in determining their annual fuel needs, the services do not give consideration to the returns, only gross purchases. For fiscal year 1996, DFSC estimates that the Navy and the Air Force will return about 6 million barrels for credit valued at about \$189 million. According to DOD officials, the fuel credits represent funds that the services then use for other purposes.

In September 1995, we reported that the three services' fuel budget requests were overstated about \$330 million based on their budget requests of \$4.01 billion, and estimated DFSC sales to the services of \$3.68 billion. Based on the information provided in our September report, the Congress reduced the Navy's fuel budget request by \$100 million but did not adjust the other services' fuel requests.

Matter for Congressional Consideration

Because the services' bulk fuel budgets are still overstated about \$340 million (\$440 million less the \$100 million congressional reduction), the Congress may want to rescind the \$340 million and apply them to other unfunded emerging requirements.

Agency Comments and Our Evaluation

DOD did not concur with our suggestion that the Congress may want to rescind \$340 million of the fiscal year 1996 funding that was appropriated for fuel purchases. DOD officials said that fuel is a major element of logistics preparedness and is budgeted in accounts that are intended to be flexible in order to respond to changing requirements. DOD also said that our analysis was at a point in time and because requirements can change, a decision to rescind the fuel funds could result in underfunding a major component of readiness. To support their position, DOD said that the fuel account has overexecuted⁴ its budget in 2 of the last 4 years. It also said that our estimate of fiscal year 1995 fuel usage, which was used in determining the fiscal year 1996 requirement, was understated 5 million barrels.

As stated in the report, we agree that our analysis of the fiscal year 1996 fuel requirements is a snapshot at a point in time. We also agree that requirements do change. For example, we reviewed the fuel account in May and June 1995 and we estimated that for fiscal year 1996, the services would buy about 116.8 million barrels of fuel from DFSC at a cost of about

³As ships and aircraft are readied for maintenance, the fuel tanks are emptied and the fuel is returned to DFSC for credit.

⁴As used in this report, overexecute means that the services used more fuel than what was asked for in the budget request.

\$3.7 billion. In this report, we have revised the estimated buys from DFSC for fiscal year 1996 downward to 113.5 million barrels at a cost of about \$3.6 billion.

The documentation provided by DOD to support its position that the fuel budget was overexecuted in 2 of the past 4 years showed that the overexecution was due to fuel used during contingency situations. The fuel for contingencies are not included in DOD's budget request but are included in total fuel usage data. The amount of fuel used was then compared to the amount of funds initially received from the Congress but not the amount included in the supplemental appropriation. Therefore, when usage is compared to the budget request, it appears that the budget was overexecuted when, in fact, the fuel budget was underexecuted.

DOD's comment that our estimate of fiscal year 1995 fuel usage was understated 5 million barrels is incorrect. At the time of our analysis, at the end of the third quarter of fiscal year 1995, we estimated fiscal year 1995 net fuel requirements⁵ at 118 million barrels for the Air Force and the Navy. Our estimate did not include contingency funds used to purchase fuel. When contingency funds are included, the net requirement increases to 121.7 million barrels as compared to actual DFSC sales of 122 million barrels for fiscal year 1995.

We continue to believe that budget requests should reflect the best estimate of what is needed for the purpose for which the funds are being requested. In those cases where the request is excessive to meet known needs, the Congress may want to redirect the funds to other purposes rather than allowing DOD to decide where to use the funds. A complete text of DOD's comments are in appendix I.

Scope and Methodology

We obtained the latest available data from DFSC showing estimated fuel sales to the Army, the Navy, and the Air Force and compared this data to the amounts the services had asked for in their respective budget requests. We then verified the planned usage data with service comptroller officials responsible for developing the estimates. To ensure that the projected fuel sales data were valid, we obtained actual fuel sales and usage data for fiscal year 1995 from DFSC and held discussions with the service officials responsible for monitoring fuel usage. Based on the records provided by DFSC, we also confirmed that the services received credits for fuel returned to DFSC.

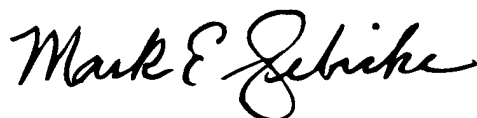
⁵Net fuel requirements are total gross requirements less fuel returned to DFSC for credit.

We performed our review at DOD, DFSC, and the military services' headquarters. In addition, we reviewed fuel consumption data at the Air Force Air Combat Command, Langley Air Force Base, Virginia; and the Navy's Atlantic Command, Norfolk, Virginia.

We performed our review from October 1995 to January 1996 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Secretaries of Defense, the Army, the Navy, and the Air Force; the Director, Office of Management and Budget; and other interested congressional committees. Copies will also be made available to others upon request.

If you or your staff have any questions concerning this report, please call me at (202) 512-5140. Major contributors to this report are listed in appendix II.



Mark E. Gebicke
Director, Military Operations
and Capabilities Issues

List of Congressional Committees

The Honorable Ted Stevens
Chairman,
The Honorable Daniel K. Inouye
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable John McCain
Chairman,
The Honorable John Glenn
Ranking Minority Member
Subcommittee on Readiness
Committee on Armed Services
United States Senate

The Honorable John R. Kasich
Chairman,
The Honorable Martin Olav Sabo
Ranking Minority Member
Committee on the Budget
House of Representatives

The Honorable Herbert H. Bateman
Chairman,
The Honorable Norman Sisisky
Ranking Minority Member
Subcommittee on Military Readiness
Committee on National Security
House of Representatives

The Honorable C. W. Bill Young
Chairman,
The Honorable John P. Murtha
Ranking Minority Member
Subcommittee on National Security
Committee on Appropriations
House of Representatives

Contents

Letter	1
Appendix I Comments From the Department of Defense	10
Appendix II Major Contributors to This Report	12
Table	Table 1: Bulk Fuel Requirements in the Fiscal Year 1996 Budget Request and DFSC's Estimate of Sales to the Services 2

Abbreviations

DFSC	Defense Fuel Supply Center
DOD	Department of Defense

Comments From the Department of Defense



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100



MAR 25 1996

(Program/Budget)

Mr. Mark E. Gebicke
Director, Military Operations and Capabilities Issues
National Security and International Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Gebicke:

This is the Department of Defense (DoD) response to the GAO draft report, "DoD BULK FUEL: Services' Fuel Requirements Could Be Reduced and Funds Used for Other Purposes," dated March 1, 1996, (GAO Code 703121), OSD Case 1102. DoD does not concur with GAO's suggestion that Congress may want to consider rescinding \$340 million of FY 1996 funding that was appropriated for fuel purchases.

Fuel is budgeted in accounts that are intended to be flexible in order to respond to changing operational requirements. The GAO analysis threatens to underfund a major component of logistics preparedness because it takes a snapshot of requirements and analyzes it as though it were a line item budget for a quantity of equipment, rather than a constantly changing, requirement based, program. Such snapshots fail to consider events that transpire during the course of the year that impact projected fuel requirements. The assumptions used to build the President's budget are not identical to those required to execute the FY 1996 program, and the changing landscape of U.S. commitments has altered how the Department needs to allocate its funds.

While FY 1996 fuel may appear right now to be overfunded, it should be noted that the fuel account has also executed above its budgeted levels in 2 of the past 4 years. If similarly timed snapshots had been taken during those years, similar recommended reductions would have left the operating accounts seriously short of funds. In fact, GAO's own estimates of DoD fuel requirements attest to the volatility of fuel requirements. For example, last summer, with three quarters of the year then complete and a known value for actual fuel consumed to that point, GAO still underestimated actual fuel consumption in FY 1995 by approximately five million barrels.

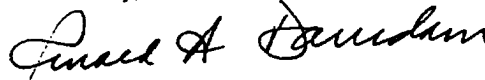
Finally, GAO states that the Army has underexecuted its training budget in recent years. However, the Army has had to reprogram training funds to meet contingency operations and other fact-of-life requirements. As a budgeting policy, the Department does not budget for unforeseen costs. Thus, as numerous unanticipated events occur, it is in the Department's and Congress' best interests that funds are realigned as efficiently as possible prior to asking Congress for additional appropriations. There exist sufficient oversight mechanisms for

Appendix I
Comments From the Department of Defense

Congress to ensure that the Department is applying its resources to the highest priority requirements.

In conclusion, fuel funding is integral to maintaining readiness, and as such the Department cannot concur with any suggestion to reduce it, because history shows that this program is too volatile to endorse such an action. The Department has worked closely with the Services and the Defense Fuel Supply Center to ensure that FY 1997 fuel estimates are more closely aligned. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ronald A. Davidson".

RONALD A. DAVIDSON
DEPUTY COMPTROLLER
(PROGRAM/BUDGET)

Major Contributors to This Report

National Security and
International Affairs
Division, Washington,
D.C.

Sharon A. Cekala
Robert J. Lane

Norfolk Regional
Office

Thomas A. Pantelides
Robert W. Wagner
Cora M. Bowman